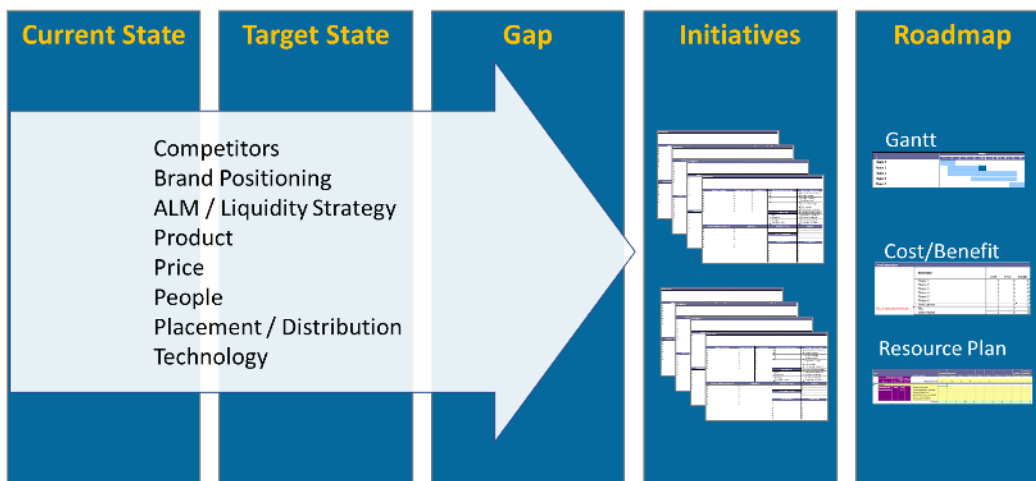


Deposit Strategy Framework



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Executive Summary

This section contains the executive summary of the Deposit strategy framework. Call out key goals, findings, most relevant initiatives and items that will require the most immediate executive attention. A high-level Gantt chart of the Strategic Roadmap can be included in this section.

Current State

A financial institution's brand position should drive and inform its strategic objectives, tactics and almost every other action taken. Therefore, start by defining for the audience the brand position to guide the evaluation of any strategy proposal.

Brand Positioning

Brand positioning is the financial institution's vision or key value proposition to the customers/members – as perceived by their clients. Examples of Brand dimensions:

- Pricing - price leader/follower
- Convenience – omnichannel, omniscience, mobile enablement
- Community – level of engagement, role
- Service levels – advice positioning, engagement, support
- Digital adoption – leader, follower
- Safety and security – data management, asset management

Some research notes:

The value proposition of community bank deposit stars

- 60% of community banks that excel at deposit focus on the delivery of high quality, attentive service friendliness of employees, being recognized by name, responsiveness to problems
- 20% focus on niche market segments like small business Professionals Ethnic group
- 5% focus on highly competitive pricing
- 15% other reasons or value propositions

Competitors

Both internal and external elements inform the strategy. Spend some time to understand the landscape of the market(s) in which your financial institution operates.

Survey the competitor landscape

- Identify your financial institution top 5 competitors
 - What are they doing about their deposit product(s) rates?
 - What new products are they offering?
 - What are their financial management goals/challenges

ALM & Liquidity Strategy

The deposit strategy must support the ALM and Liquidity strategy. The ALCO should evaluate the institution's ALM and liquidity management policies and set targets and risk limits. Industry regulators and liquidity managers will have established guidelines for an institution like yours that must inform the analysis of your situation.

Analysis of the deposit composition

- Become familiar with the funding plan target set at your ALCO
 - It should take into consideration your financial institution loan growth projections
 - Consider the alternate funding sources available to fund loan growth if internal deposits are not adequate to support the plan
 - Consider the impact of the use of alternative funding sources on your institution Cost of Funds
- Understand your deposit mix (i.e., Core, Term Deposits, Money Market, etc.)
 - Include a scenario analysis of the impact on the funding mix of any expected Federal Reserve's interest rate movements
 - Calculate the impact on the financial institution's margins and annual gross income of a proposed Federal Reserve's interest rate movements
- Set deposit mix targets
 - Be clear on the overall objective of the deposit mix targets set
 - Increase revenue

- Decrease risk
- Improve customer retention - deposit customers are the best source of cross-selling opportunity
- Stable funding, low volatility

Product

Conduct an inventory of your product offerings to identify areas of strength and opportunities. The analysis of your main competitors offering in your marketplace will significantly inform the analysis of your offering. Also, understanding your brand positioning will inform whether you are delivering on the brand promise/adding value to your customer base.

Product Strategy

- Understand your Current Product Array
 - Payment frequency
 - Deposit hold actions
 - Free checking (expensive),
 - High rate MMDA, packaging/tiers
 - Term Deposits
 - CD Features bump up, add on, step rate, cashable, partial redemption
 - CD ladders
 - CDARS
 - Options
 - Early redemption
 - Fee collection
- Consider any expected changes to the Deposit Products mix
 - New products planned
 - The target customer base for the new product?
 - Rate sensitivity of the new product/impact on substitution
 - value proposition other than price
 - Plans to rationalize any given product
 - Customers to be impacted – attrition risk management / conversion plan
 - Anticipated promotions
 - Historical product substitution
- Loyalty / rewards programs
 - Points / value for minimum balances, direct deposits / bill pay, transactions (e.g. Kasasa)

- Deposit presence in product bundles
 - Relationship packages that provide better rates, lower fees, and a higher level of service for customers with deposit amount at a certain threshold
 - Deposit presence / role in product bundles

Service practices

Effective Service practices should deliver two key results: a) complement the sales effort and promote the cross-selling of your customer base b) create fans among out of your member (customer) base. Those with higher service standards traditionally outperform their competitors.

- Service standards
 - Monitor onboarding
 - Onboarding... two days (thank), two weeks (confirm delivery), two months (offer to help)
 - Strategy for contacting most active depositors
 - Use service calls as opportunities to address unmet financial needs or gain new business
 - Contact management to capture and leverage information from every interaction
- Net Promoter Score – Satisfaction is a predictive indicator of likelihood to recommend and do more business with the institution.
- Set direct deposit (anchor) targets – focus on Payroll Bonuses, Tax refunds, Retirement payouts, terminations payouts
- Does your service model deliver on your brand promise?
 - High touch service to the self-service continuum

Price

Consider your product pricing policies and how reactive to market forces you are willing to be to retain your customer base. Understand your historical pricing Betas and future targets (correlation between Market prices and Deposit prices = Beta)

- Price leadership
 - Leader (Your competitive advantage) / Follower (you deliver other value)
- Sensitivity to Fed moves
 - You must follow or not
 - Repricing

- Discretionary pricing (controlled ???)
 - Overdraft management – Pay / No Pay decisions criteria
 - Fee waivers (failure to capture no interest income)

People

Level set on key levers of how your financial institution interacts with /produces/consumes/ and promotes Deposit Products to the external and internal stakeholders.

Member (Customer) Segmentation

A granular segmentation - that provides the ability to deliver offers relevant to your Member (customer) – and effective Service practices - that complement the sales effort are two key elements define your readiness to transact with your member customer base.

- Identify your financial institution key depositors – both Commercial and Retail
 - Understand their needs and transacting patterns
 - Identify key targets for conversion or acquisition – acquire selectively
 - Contact proactively
- Customer’s risk profile - Is risk reflecting on the pricing
- Relationship value - understand the Lifetime Value of your customer base
- % of the customer base for which the institution is the primary bank - the financial institution where they maintain the DDA from which they transact
- Length of the relationship - Do you reward loyalty based on Deposit Products?
- Affinity groups segmentation - Occupational, ethnic and special interest groups, business banking segmentation

Staff

The staff is both: a) your face to your member (customer) base, and b) an internal user of products and services – a prime source of insight into your usability and market standing. Assess your staff capability to talk confidently with your customer about the features and benefits of your Deposit Products.

- Assess staff capability to identify customer financial needs
 - Assess ability to identify both the voiced not voiced customers’ needs
- Assess staff deposit product knowledge
 - Consider collateral available for staff to explain services

- Evaluate the training quality on product, advice, sales process, saving practices
- Capture staff experience as a user of your product

Placement aka Distribution Channels

Evaluate the impact of your go-to-market practices on your ability to capture and retain Deposit Products.

Channels

- Evaluate the assignment of deposits capture objectives to sales staff - leadership, metrics, compensation
 - SMART deposit capture targets
 - Define a process to go beyond met/ unmet target reports to evaluate drivers of the variances across staff/branch/region
- Monitor cross-selling of deposits with other products sold by the financial institution
 - Measure the number of customer's financial needs typically met during onboarding (Customers financial needs = Day2Day Banking, Savings, Borrowing, Insurance)
 - Identify clients that offer a more profound relationship potential
- Evaluate the effectiveness of goal setting, rewards and recognition programs for customer/member facing staff
- Evaluate the ease of transacting in branch and through alternate delivery channels
 - Ease of self-setting direct deposit (anchor)
 - Fast track capture of Compensation Bonuses, Tax refunds, Retirement payouts, terminations payouts
 - Convenience (first consideration in channel selection)
 - hours, locations, branch design, [DM and mobile, web design?]
 - Ease of accessing advice (a second most important consideration in channel selection)
 - Advice - combined investments and deposits
 - Training and capabilities of the staff serving the various channels
- Evaluate how your website communicates your deposit product value proposition and features and benefits
- Branch awareness of net attrition rate
 - Set attrition reduction targets
- Monitor "same-store growth."

- Measure individual outlets (ex-new/closed/acquired)
- Organic growth
- Evaluate your customers' journey across channels
 - Selection of branch
 - ROPO (Research Online – Purchase Offline)
 - Branch access to applications/transactions initiated online

Technology

Technology underpins the operations of all financial institutions. To some, financial institutions are technology companies that provide financial services. Consider the technology underpinning of your operations.

- Demographic insights
- Descriptive analytics
- Predictive analytics
- Product management capabilities (bundling, pricing)
- Sales management capabilities (goals, rewards and recognition)
- Delivery capabilities
 - Mobile / online account open / deposit / account management
 - Straight-through processing rate

Target State

The information collected in the current state analysis and the knowledge of industry trends and best practices should inform the target state definition. The Target State may be presented as a “maturity” assessment (typically 5 levels) of each capability.

Product

What is the target state for Product offerings? This should include both visionary (long term) and near-term (planning horizon) achievable states.

Product Strategy

- List changes necessary to meet industry standards / best practices on Deposit Products
- Maturity assessment of the product offering
- Proposed changes (IF ANY) to the product offering
- Deposit presence in product bundles design
 - Maintain awareness of tied-selling and product pushing

Service

- Proposed changes (IF ANY) to the service practices
- Recommended revisions to the service standards
 - Target onboarding practices
 - Onboarding... 2 days (thank), two weeks (confirm delivery), two months (offer to help)
 - Key depositor’s management model
 - Use of information from customers interactions
- Targets for Net Promoter (or indicator selected)
- Service model recommendations

Price

What is the target state for Pricing policy? This should include both visionary (long term) and near-term (planning horizon) achievable states.

Evaluation of your product pricing policies and insight on best practices

- Proposal regarding the target pricing position
 - Leader (Your competitive advantage) / Follower (you deliver other value)

- Define the repricing policy
- Define the controls over discretionary pricing (controlled???)
 - Pay / No Pay overdraft decisions
 - Fee waivers authorization review

Promotion

What is the target state for Promotion of offerings? This should include both visionary (long term) and near-term (planning horizon) achievable states.

Evaluation of the Deposit Products promotion practices. Ideally, it will provide guidance on how to promote based on a one size fits all and create offers that are better timed and more relevant to your members (customers).

- Recommendations on the levers to desire to transact with your financial institution
 - Leverage, the segmentation analysis in case patterns, vary among segments
- Document the timing of the various promotions based on your institution traditional money flows, e.g.:
 - April outflows: target in May June
 - Fall moving/consolidation of accounts

People

Proposal of any recommended changes to the manner in which your financial institution interacts with /produces/consumes/ and promotes Deposit Products to the external and internal stakeholders.

Member Segmentation

What is the target state for Segmentation? This should include both visionary (long term) and near-term (planning horizon) achievable states.

Identify availability gaps and document the segmentation recommended based on best in class practices at financial institutions of similar size and market focus.

- Segmentation recommendations based on market best practices

Staff

What is the target state for managing, motivating and optimizing value from people - your costliest resource? This should include both visionary (long term) and near-term (planning horizon) achievable states.

Document any changes recommended augmenting the staff capabilities to talk confidently with your customer about the features and benefits of your Deposit Products.

- Improve the ability to identify customer financial needs
- Any plans to enhance the staff deposit product specific knowledge

Placement aka Distribution Channels

What is the target state for Distribution? This should include both visionary (long term) and near-term (planning horizon) achievable states.

Document any changes recommended to the financial institution's go-to-market practices to enhance the ability to capture and retain Deposit Products.

Channels

- Document any recommendation to:
 - Create/monitor the target deposits capture objectives of the sales staff
 - Improve the cross-selling of deposits with other products sold by the financial institution
 - Revamp the onboarding practices – separated by the channel of onboarding (if applicable)
 - Improve the ease of transacting, both in branch and through alternate delivery channels
 - Increase the effectiveness of the website in communicating your Deposit Products value proposition, features and benefits
 - Create branch awareness of net attrition rate
 - Set attrition reduction targets
- Make enhancements to the member's (customer) journey across channels

Technology

What is the target state for Technology to support the strategy? This should include both visionary (long term) and near-term (planning horizon) achievable states.

Capture analysis of the financial institution technology architecture and identify how it promotes or hinders the capabilities in the context of best industry practices/trends

- Straight-through processing rate
- Demographic insights
- Descriptive analytics
- Predictive analytics

Strategic Gaps

Following the structure of the four Ps of marketing, capture all gaps uncovered between Current State and Target State. Evaluate the impact on the net income of each gap and define the initiatives to remedy the gaps. Those are the key inputs to substantiate the prioritization of any initiative or close a given gap or create any new capability.

Gaps can be mapped to a capability maturity scale that the team conducting the analysis can refine through discussion with the financial institution management /analysis sponsor. The process will also inform/produce the list of strategic initiatives that will be submitted for funding approval.

Strategic Initiatives

Your organization will have an approved process for analyzing and substantiating the strategic initiative submitted for funding approval.

Cost-Benefit analysis is usually used to prioritize initiatives according to business net benefit. The strategic roadmap will take priority into account, subject to key constraints such as dependencies, resource availability.

The model below serves as guidance on elements that the analysis of each strategic initiative proposed should consider.

Description				
Related Findings	Enablers (Built out)	Capabilities	Benefits: Business Goals	Delivery Risk Factors
• • • • • • • • • •	• • • • • • • • • •	• • • • • • • • • •	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Development Complexity
			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Project Staffing
			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Budget Funding
			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Business Case
				<input checked="" type="checkbox"/> Operational Change
				<input checked="" type="checkbox"/> Org. Change
				<input checked="" type="checkbox"/> Technology Complexity
				<input checked="" type="checkbox"/> Logistical Dependencies
				<input checked="" type="checkbox"/> Interactions/ Interfaces
				<input checked="" type="checkbox"/> Business Continuity
	<input checked="" type="checkbox"/> Business Disruption			
	<input checked="" type="checkbox"/> Regulatory Assurance			
Current Systems Impacted	Approach	Duration / Roles	Outputs	
• • • • • • • • • •	• • • • • • • • • •			•
				•
		Total Cost Estimate		•
				•
		Dependencies	Assumptions	
		• • • • • • • • • •	• • • • • • • • • •	

Please find enclosed an excel version for ease of manipulation



Roadmap

Roadmap the journey to target state. The roadmap should capture all the capabilities that will be acquired through the strategic initiatives, both with funding approved and awaiting funding. Also - for completeness - it is best also to map Strategic Gaps that are not being immediately addressed, but the institution will like to see covered at a later day (with the acknowledgment that the gap is not associated with any strategic initiative.

A typical roadmap will include short term “quick wins” that can be immediately actioned, planned initiatives that will be executed within the planning horizon and future initiatives that will be undertaken beyond the planning horizon timeframe. All three horizons are essential:

1. *Quick wins – stimulate immediate concrete actions that accelerate benefit realization, transition the team from planning to action and help fund downstream investments envisioned by the Roadmap.*
2. *Planned initiatives – tend to be foundational for realization of the future state vision. Planned initiatives should be an in-the-money plan that realizes tangible benefits while building capabilities required of the future state vision. On completion of planned initiatives there should be a clearly defined target state that will be achieved.*
3. *Future initiatives – typically deferred due to dependencies on planned initiatives or budgetary constraints, these initiatives need to be included in the Roadmap to enable management to clearly understand the complete path to vision realization. This context is essential for approving planned initiatives with marginal business cases.*

Last, organization resources are finite, and the appetite for change is usually limited. At the time that the roadmap is submitted for executive approval should overlay other key strategic initiatives not related to deposits product that impact the key stakeholders that will be required to implement said roadmap

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